



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

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February 24, 1998

Albert Brantley
Gemstone Mining Company
599 North 800 West, # 1
Cedar City, Utah 84720

Re: Interim Reclamation Surety for Mine Site Disturbances, Gemstone Mining Incorporated (GMI), Red Beryl Projects, S/001/011 and S/001/012, Beaver County, Utah

Dear Mr. Brantley:

First of all, let me apologize for the inadvertent delay in providing this letter to you as promised during our January 30, 1998 meeting. As you will recall, during the meeting we agreed to calculate and send you an *interim* reclamation surety estimate to cover the reclamation costs associated with the current small mining disturbances associated with the Violet/Red Beryl project areas. On January 16, 1998, the Division sent West Desert Collectors (S/001/011 - Rex Harris) and Rancho Equipment Services (S/001/012 - Robert Thomas) formal written requests to provide us with completed Large Mining Operation permit applications. The BLM and Division had determined that both mine sites now exceed their respective five acre disturbance threshold for a small mining operation. A February 2, 1998 deadline was established for both small mine operators to submit a reclamation surety and Large Mining Permit (LMO) Application to the Division of Oil, Gas and Mining.

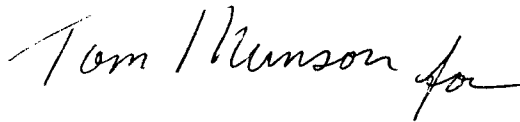
During our meeting you informed us that GMI was in the process of purchasing the Red Beryl mine properties from both operators and would be willing to post an interim reclamation surety to cover both project areas. This interim surety would remain in place until GMI could complete and receive approval of a LMO application for all of the present disturbances associated with these mine sites. You stated that no mining, exploration or mill processing activity has occurred since last fall. No additional onsite activity is proposed for the immediate future. GMI is now completing its gemstone cutting work, conducting ongoing engineering work and developing plans to relocate the existing millsite/processing plant closer to the mine. You stated that GMI plans to submit a formal LMO permit application by the end of March or early April/98 for the minesite and the new millsite.

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Red Beryl Projects
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After consulting with our upper management, the BLM, and our mining engineer, Mr. Anthony Gallegos, we have determined that \$37,500 (\$2,500/acre X @15 acres surface disturbance) would be the appropriate interim bond amount. Per your request, we have enclosed a joint agency Letter of Credit surety form to be completed and returned to our office as soon as possible. Please assure that the LOC is made payable to the Utah Division of Oil, Gas and Mining and the USDI, Bureau of Land Management.

Thank you for your cooperation in posting this interim bond. If you have any questions regarding this letter or forms, please do not hesitate to call me at (801) 538-5286, or Mr. Munson at 538-5321.

Sincerely,

A handwritten signature in cursive script that reads "Tom Munson" followed by a small flourish.

D. Wayne Hedberg
Permit Supervisor
Minerals Reclamation Program

jb
Enclosure: Joint LOC form
cc: Ed Ginouves, BLM, Cedar City District Office
Mary Ann Wright, DOGM
E/001/097
S001011.let